



Association Submission to the President's Advisory Panel on Federal Tax Reform

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**The Honorable Connie Mack, Chairman
The Honorable John Breaux, Vice Chairman
The President's Advisory Panel on Federal Tax Reform
1440 New York Avenue NW, Suite 2100
Washington, DC 20220**

Dear Senator Mack and Senator Breaux:

In response to Request for Comments #1, AeA (American Electronics Association) is pleased to provide comments to the President's Advisory Panel on Federal Tax Reform.

Advancing the Business of Technology, AeA is the nation's largest high-tech trade association, representing nearly 3,000 member companies that span the high-technology spectrum, from software, semiconductors and computers to Internet technology, advanced electronics and telecommunications systems and services. AeA members include small, medium, and large high-tech companies.

Many of AeA's member companies have significant operations overseas, and AeA encourages the Panel to consider forward-looking reforms to the international tax provisions of the Internal Revenue Code (Code) that will enhance the ability of American companies to compete in global markets and emphasize the strengths of the U.S. economy. Provisions such as the Subpart F rules on foreign base company sales and service income place major constraints on the ability of U.S.-based companies to operate in overseas markets – a restriction that is not shared by our foreign competitors. International reforms would benefit the bottom line of our company operations, benefiting our shareholders, employees and customers, and ultimately the U.S. economy.

We understand the Panel will consider revenue-neutral proposals, and that is certainly a worthy goal; however, neutrality should not be achieved by shifting the cost of individual tax reform to U.S. businesses. The 1986 Tax Reform Act has been hailed as a revenue neutral measure, but in fact, it shifted a portion of the individual tax burden to U.S. businesses and actually added to the complexity of corporate taxation – especially in the international tax rules.

If revenue neutrality becomes one of the Panel's goals, any proposal should be revenue neutral both at the individual and corporate level. Modifications that add to the complexity of the corporate tax rules will only further increase the cost of doing business. The United States already has one of the highest corporate tax rates among

the OECD countries, and companies simply cannot effectively compete with foreign competition if the tax burden becomes even more onerous.

An example of how the Code has been made more complex and burdensome is the corporate alternative minimum tax (AMT). Corporate AMT compliance is very expensive as companies have to keep a separate set of records relating to the requirements of the AMT, and businesses cannot use credits, such as the research and experimentation (R&D) credit, to reduce AMT liability.

The Code should help facilitate business decisions that benefit the U.S. economy, but in order to make long-term planning decisions, companies need clarity and certainty in the regulatory system. An example of a distortion of the current system that does not allow for such planning is the R&D credit. This is an extremely important credit for companies that conduct R&D in the United States; however, since 1981, the credit has been allowed to expire 11 times. This has deprived companies of the ability to make long-term decisions relating to how much R&D they can perform in the United States. A permanent credit would allow companies to increase R&D activities in the United States, which would result in more American jobs and a stronger U.S. economy.

U.S. companies are facing increasing competition from abroad at a time when they are also struggling with new regulatory challenges, particularly in the accounting area. Currently, companies are in the process of working through Sarbanes-Oxley compliance, and the Financial Accounting Standards Board recently issued a new accounting standard that will require companies to expense employee stock options and employee stock purchase plan discounts beginning later this year. These new rules have added another layer of complexity to corporate accounting and will – if they have not already – significantly impact a company's costs and its ability to compete globally.

AeA urges the Panel to keep these issues in mind when considering tax reform proposals. True reform would result in simplification and lower compliance costs. That would benefit U.S. companies, workers, and competitiveness.

Sincerely,

Marie K. Lee
Tax Counsel
AeA